



Recent Economic Developments

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CAUTIOUS OPTIMISM – The U.S. economy continues to grow, although at a sluggish pace. The economy appears to be in the initial stages of an economic expansion; recent economic data contain both good news and reasons for caution.

Reasons for Caution: Concerns about consumer spending and falling stock prices

- **Retail Sales** fell significantly in May, and a measure of **Consumer Sentiment** fell in June. Consumer spending, which accounts for roughly two-thirds of GDP, has been surprisingly solid during the recession.
- **Major Stock Indexes** have been declining over the past three months. Market commentators have expressed concern over the strength of the recovery and investor uncertainty about the strength and reliability of reported earnings.

Reasons for Optimism: General trends remain positive

- **Employment** increased in May for the second consecutive month, and **Unemployment** ticked down to 5.8 percent in May from 6.0 percent in April.
- **Housing Starts** continue to be surprisingly strong.
- **Industrial Production** has grown for five consecutive months, and **Capacity Utilization** has been moving up since December.
- **Inventories** declined in April, and the inventory-to-sales ratio is the lowest on record. Inventory rebuilding may therefore contribute to future GDP growth.
- **Corporate Profits** have edged up since last year, but have been sluggish recently.
- **Inflation** in consumer and producer prices remains subdued.
- **Productivity**, which was healthy throughout the recession, moved substantially higher in recent quarters. Productivity growth is key to overall economic growth.

Other Notable Developments: The Fed, the Dollar, and Trade

- Financial markets are predicting that the **Federal Reserve** will not change interest rates in the next few months.
- The **Dollar** has weakened substantially since the start of the year, giving a boost to manufacturing while increasing the cost of imports.
- The **Trade Deficit** widened in April. Imports grew substantially, and import growth outstripped growth in exports.